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AUTHOR	Ahart, Gregory J.
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ABSTRACT

Results of a Government Accounting Office review of the administration of the National Direct Student Loan (NDSL) program by the Office of Education and participating universities is provided. Problems found concerned the need to: (1) provide program guidance at institutions so they can promptly and effectively implement established requirements and changes in the program; (2) establish procedures to determine other federal aid received by NDSL recipients; (3) emphasize to schools their responsibility for collecting on loans to reduce delinquency rates; (4) provide technical assistance to participating institutions and periodically review their administration of the program; and (5) improve the efficiency of reporting requirements and tabulating program data. Appropriations for the program are over $300 million annually, and the combined net worth of NDSL funds at participating institutions totals over $3 billion. It was found that because delinquency rates have continued to increase, loan funds available to needy students have diminished. (SPG)

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UNITED STATES
GENERAL ACCOUNTING OFFICE

The National Direct Student Loan Program Requires More Attention By The Office Of Education And Participating Institutions

Office of Education
Department of Health, Education, and Welfare

GAO reviewed the administration of the National Direct Student Loan program by the Office of Education and participating institutions and found problems in the areas of loan servicing and collection. The Office of Education needs to provide technical assistance to participating institutions and monitor their performance. Appropriations for the program are over $300 million annually, and the combined net worth of National Direct Student Loan funds at participating institutions totals over $3 billion. Delinquency rates have continued to increase, thereby diminishing loan funds available to needy students.

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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HRD-77-109

JUNE 27, 1977

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-164031(1)

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

Because of continuing congressional interest in Federal student financial aid programs, we surveyed the National Direct Student Loan (NDSL) program administered by the Office of Education (OE). The program was established under title II of the National Defense Education Act of 1958, as amended, and the Education Amendments of 1972 incorporated this title into part E, title IV of the Higher Education Act of 1965, as amended. In 1972 the name of the program was changed from the National Defense Student Loan program to the National Direct Student Loan program.

The program provides for the establishment of loan funds at postsecondary educational institutions, so they can make long-term, low-interest loans to qualified students who need financial assistance to pursue a course of study on at least a half-time basis. Federal funds are generally provided each year to participating institutions. The Federal share under the program is 90 percent with the institutions supplying the remaining 10 percent. The institutions are responsible for making and collecting the loans.

The NDSL program is one of three OE student financial aid programs for which financial aid officers at the institutions determine eligibility and the amount of aid. The others are the College Work-Study and the Supplemental Educational Opportunity Grant programs, both of which are authorized by the Higher Education Act of 1965, as amended. The three programs are usually referred to as campus-based student aid programs. An institution may choose to participate in any combination of individual programs or all three programs.

Appropriations for the NDSL program for fiscal year 1976 were $332 million, $321 million of which was for new Federal capital contributions, and the remainder was for

loan cancellations and institutional loans. Since the program began, the net cumulative Federal capital contribution totals over $3.2 billion. Loan collections by institutions were about $215 million in fiscal year 1976.

Our survey was conducted at OE headquarters in Washington, D.C.; at the offices of the Regional Commissioners for Education in regions III (Philadelphia), V (Chicago), and IX (San Francisco); and at four postsecondary educational institutions--a public university and a community college in Maryland, and a proprietary school and an institution offering specialized training for handicapped students in Washington, D.C. At the institutions visited we discussed their programs, reviewed procedures for adhering to published guidelines and regulations, and examined the files of selected NDSL borrowers.

We noted problems in the administration of the NDSL program by OE and the institutions we visited. These problems concerned the need to

--provide program guidance at institutions so they can promptly and effectively implement established requirements and changes in the program,

--establish procedures to determine other Federal aid received by NDSL recipients,

--emphasize to schools their responsibility for collecting on loans to reduce delinquency rates,

--provide technical assistance to participating institutions and periodically review their administration of the program, and

--improve the efficiency of reporting requirements and tabulating program data.

We recognize that our findings are based on results of visits to a limited number of institutions; however, we do not believe that the problems we found are unique to only Department of Health, Education, and Welfare (HEW) regions and the institutions included in our survey. Many of our findings have also been noted by others who have reviewed various aspects of the NDSL program.

NEED FOR PROGRAM GUIDANCE AT INSTITUTIONS

Because OE has not provided adequate program guidance for institutions participating in the NDSL program, those participating in the program for the first time have been unclear regarding requirements, and previously participating institutions have not implemented changes brought about by new legislation. The most current NDSL program manual was published in 1967 and is out-of-print, and the Federal program regulations in effect when we started our survey were not current.

In addition to the problems created for institutions trying to establish NDSL programs, lack of up-to-date program guidance can create problems for institutions with established NDSL programs. For example, institutions that have participated in the program for several years have loan accounts in their books which they considered uncollectible even though the Education Amendments of 1972 allow them to assign such accounts to OE. Although this may have jeopardized ultimate collection of these accounts, we believe that OE should first attempt it before writing them off as uncollectible.

Program manual

In at least one region, copies of an NDSL program manual were not available to give to schools entering the program for the first time. Due to numerous changes in the law since 1967 (when the latest manual was published), an updated manual is needed, especially for new schools participating in the program.

OE program officials said that the Education Amendments of 1972 mandated that all essential program requirements be published as regulations. These officials distinguished between such regulations and manuals--such as the 1967 manual which contains helpful hints on program operations. They also told us that various nongovernmental organizations publish manuals, and that OE has distributed a fiscal and accounting manual to institutions. They have reviewed a collections manual under preparation by one of these nongovernmental organizations and have contracted for the preparation of a training manual by another such organization. However, these manuals were not available to institutions participating in the NDSL program as of April 1977.

We believe that OE needs to see that the manuals and regulations discussed above will provide the necessary guidance for institutions that participate in the NDSL program. If OE program officials believe that the manuals and regulations are sufficient, then a procedure should be established to promptly update them as changes occur.

Program regulations

The Education Amendments of 1972 (P.L. 92-318, enacted June 23, 1972) require the Commissioner of Education to study all rules and regulations pertaining to OE programs, to report the results of this study within 1 year to the appropriate legislative committees of the Congress, and within 60 days after submission of the report, to publish all rules and regulations in the Federal Register.

In October 1975, OE published a Notice of Proposed Rulemaking in the Federal Register, soliciting comments and recommendations, and providing for public hearings on proposed regulations for the NDSL program. In November 1976, interim regulations were published. OE officials attributed the lengthy delay in revising the program regulations to internal clearance procedures and lack of staff.

Without an updated procedures manual and revised program regulations, institutions cannot administer the NDSL program without problems. For example, the Education Amendments of 1972 provide that institutions may assign to OE those NDSL accounts which had been "* * * in default for at least 2 years despite due diligence on the part of the institution in making collection * * *." For over 4 years this provision was not implemented by regulation, and because the term "in default" had not been defined, institutions had not assigned defaulted accounts to OE.

The interim regulations published in November 1976 provide for assigning accounts to OE; however, the delay has caused schools to keep in their books accounts which they consider uncollectible. Two institutions we visited maintained an "inactive" group of loans for which they no longer attempted collection. We believe the delay in assigning uncollectible accounts to OE has decreased the likelihood of collecting these loans.

OE program officials said that if institutions report that they have followed OE's procedures for billing and

collecting on accounts by documenting that borrowers cannot be located despite thorough checks or that they lack the ability to pay, then OE will probably write off these loans and attempt no further collection. However, it does not appear that OE has the resources to routinely check on the reliability of information reported by institutions, and we found that institutions were not adhering to OE's recommended billing and collecting procedures (see p. 10). Based on our visits at institutions and the results obtained by OE under the Guaranteed Student Loan (GSL) program when it pursued lenders in default (see below), we believe that it would not be in the best interest of the Federal Government to write off these NDSL accounts without first attempting, on at least a sample basis, further collection efforts to see if it is warranted from a cost-benefit standpoint.

The GSL program provides for Federal collection efforts after an account has been purchased from a lender because of default. During fiscal year 1976, OE employed over 100 collectors at its 10 regions to recover money from student borrowers who defaulted. In addition, OE plans to contract with private agencies for the collection of defaulted GSL loans. GSL program officials have had some success in pursuing borrowers after lenders have failed to collect. Of more than $280 million paid to lenders for defaulted loans, OE has collected about $25 million.

A procedure similar to that used in the GSL program might be applied to defaulted NDSL accounts to determine their ultimate collectivity. A great deal of work will be involved once schools begin assigning defaulted NDSL accounts to OE. An OE official estimated that initially the number of such accounts could be as high as 150,000. Procedures had not been developed nor had staff been assigned for handling these accounts at the time of our fieldwork. OE officials said that procedures are being developed and that they plan to recruit three people for this job.

We do not believe that these procedures will be sufficient to avoid delays and backlogs in the processing of such accounts. For example, using OE's estimates, three persons would require 2 years to determine collectivity of these accounts if they could do 100 each workday, which seems unlikely.

Conclusions and recommendations

Institutions should be provided with timely, accurate, and comprehensive information on policies and procedures

concerning administration of education programs, and this information should be updated as changes occur.

We recommend, therefore, that you direct the Commissioner of Education to take prompt action to provide the necessary program guidance to institutions participating in the NDSL program. Until this is done, new procedures and policies could be made available to regional OE staff and to institutions through memoranda and letters or other means deemed suitable by you or the Commissioner.

Also, we recommend that you direct the Commissioner to attempt collecting NDSL accounts before writing them off. Because this could be a major undertaking, priority should be given to developing plans and procedures so that the Federal investment in the NDSL program will be adequately protected and collection costs will not be greater than amounts recovered. Consideration could be given to a sample collection project to determine if a program-wide collection effort by OE would be feasible from a cost-benefit standpoint.

NEED TO CONSIDER OTHER AID RECEIVED BY NDSL RECIPIENTS AND EMPHASIZE LOAN SERVICING AND COLLECTION ACTIVITIES

Generally, administration of the NDSL program is performed by two separate offices of an institution--the financial aid office and the business office. The financial aid office is responsible for determining the eligibility of prospective students and for approving loans. Unlike most other Federal student aid programs, the NDSL program requires commitment and involvement on the part of the institutions long after students have completed their studies. This is a result of the repayment requirements of the loans. Institutions usually delegate responsibility for loan collection to the business office.

We found little problem with institutions adhering to program eligibility requirements and confirming that a documented need for financial aid existed. However, at one institution the financial aid office did not routinely check to see if loan applicants were receiving veterans' benefits. We do not believe that this is an isolated instance.

We believe that the failure of some institutions to vigorously pursue collection of NDSL accounts adversely

affects the NDSL program's delinquency rate. OE needs to advise institutions that it is their responsibility to collect on these accounts, and when institutions refuse to comply, OE should initiate appropriate remedial action.

Financial aid offices need to consider other aid received by NDSL recipients

The NDSL, College Work-Study, and Supplemental Educational Opportunity Grant programs allow financial aid officers some discretion in putting together a total package of aid for individual students. For this reason, we reviewed selected student files to determine whether NDSL program eligibility requirements were met and whether a documented need for financial aid existed. We found few problems in these areas at financial aid offices. However, at one institution we discovered that loan applicants who were receiving veterans' benefits did not always list them as a resource on their applications for financial aid. At this institution, the financial aid office did not routinely check with the office of veterans' affairs on campus to see if the loan applicant was receiving veterans' benefits. This could result in these students receiving aid in excess of their needs. We made a random check of NDSL borrowers whose last names began with the letter "B" and compared it to a list of students receiving veterans' benefits; we found four students who in addition to their student loans were receiving veterans' benefits. We found one case where an individual was receiving veterans' benefits of $270 a month, but did not indicate it on the NDSL loan application. Institution officials agreed that this individual was awarded financial aid in excess of need.

We suggested that the financial aid officer establish procedures to prevent this situation from occurring and asked that a check be made to determine the extent of the problem. Subsequently, the financial aid officer reported to us that five students had been "overawarded" a total of $3,347 for academic year 1975-76. Institution officials said that they initiated action to bill these students for the amount of excess aid, and a new policy was instituted to identify aid applicants who were receiving veterans' benefits. Although we found this situation at only one institution during our survey, we have since found this problem at several other institutions which we selected for our ongoing review of systems to determine financial need.

OE program officials advised us that their program regulations failed to require institutions to recognize veterans' benefits as a resource, and that this would be corrected when final regulations are issued.

Recommendation

We recommend that you direct the Commissioner of Education to promptly instruct financial aid officers, as part of their responsibility to coordinate the various types of aid received by students, to use information available on campus regarding other Federal funds available to students. Specifically, checks should be made so that financial aid officers will be aware of other Federal funds which students are receiving, such as veterans' benefits, so that this can be considered when determining the financial need of students.

Need to emphasize loan servicing and collection

Institutions usually delegate responsibility for servicing and collecting loans to the business office. Since it was intended that the NDSL program would be financed by yearly capital contributions and loan repayments, an institution's performance in loan servicing and collecting has a direct impact on the amount of funds available for lending and the success of the program in serving needy students. We considered the delinquency rate as one measure of how well institutions serviced and collected the loans they had awarded.

NDSL program delinquency rates are increasing

In a letter to the Secretary of HEW dated November 5, 1976, we pointed out the need to reconsider the method used for computing the delinquency rate for the NDSL program. Our concern was that OE's method did not accurately measure the performance of participating institutions in servicing and collecting on loans. On January 19, 1977, the Under Secretary of HEW advised us that HEW agreed that the OE method for computing the delinquency rate needed to be improved, and that OE would adopt our method with one change in the recommended computation.

Delinquency rates have been a cause of concern for some time. An HEW Audit Agency report to the Commissioner of

Education in April 1973 noted that as of fiscal year 1970, almost 21 percent of the institutions participating in the NDSL program had experienced delinquency rates between 11 and 30 percent. For 7 percent of the institutions, delinquency rates ranged from 31 to 60 percent. The report cited the delinquency problem as a matter of "serious concern," persisting "* * * primarily because many institutions have not effectively implemented collection procedures prescribed by OE."

On the basis of this report, the Secretary of HEW suggested in spring of 1973 that action be taken by OE to withhold or curtail loans at institutions having delinquency rates in excess of 50 percent. Plans were developed by OE to (1) identify institutions with delinquency rates over 50 percent, (2) use this information when reviewing applications for funds from these institutions, and (3) report on efforts to reduce delinquency rates in excess of 50 percent.

According to OE officials, the first two objectives were met but the third has not been achieved because of higher priority work and the lack of available staff. OE can and has limited participation in the program by reducing the amount of the Federal capital contribution when reviewing the institutions' applications for funds. For example, in award periods 1976-77 and 1977-78 respectively, 223 and 440 institutions had their capital contributions reduced to zero. However, there are no formal procedures and the interim regulations do not require OE to suspend or terminate institutions from participating in the NDSL program because of a high delinquency rate, nor has OE ever suspended or terminated any institutions for this reason.

As of June 30, 1975, 129 (4 percent) of the participating institutions had delinquency rates of 50 percent or more according to an OE report. Eight institutions had more than $1,000,000 in delinquent principal. For the period ended June 30, 1976, using OE's report on delinquency rates, we categorized the rates and compared them with the HEW Audit Agency's earlier findings. The results are shown in the following table. Although 3,167 institutions participated during fiscal year 1976, at the time of our survey, delinquency rate information had been processed by OE for only 2,663.

Delinquency rate in percent	Period ended June 30, 1970 (note a) Number of institutions reporting	Percent of total	Period ended June 30, 1976 Number of institutions reporting	Percent of total
0 - 10	1,370	71.6	1,338	50.2
11 - 30	392	20.5	804	30.2
31 - 60	131	6.8	425	16.0
61 - 100	21	1.1	96	3.6
Total	1,914	100.0	2,663	100.0

a/From HEW Audit Agency report, dated April 17, 1973, "Review of the Administration of Collection Activities--National Direct Student Loan Program."

Institutions with delinquency rates over 10 percent rose from 544 to 1,325; this was an increase from about 28 to almost 50 percent of the institutions which reported in 1970 and 1976, respectively. Institutions with delinquency rates over 60 percent rose from 21 to 96 (1.1 percent to 3.6 percent) of the 1,914 and 2,663 institutions which reported to OE in 1970 and 1976, respectively.

Loan servicing and collecting procedures not adhered to by institutions

At the institutions we visited, it was apparent that the collecting procedures prescribed by OE were not being followed. At three of the four institutions, responsible officials were not familiar with the prescribed procedures. For example, we found that:

--The 4-year public institution only recently established procedures to see that exit interviews were held with students leaving school.

--The community college did not routinely bill borrowers for their loan repayments.

--Neither of the above institutions promptly initiated collection action once an account became delinquent.

OE loan collection guidelines stress the importance of conducting an exit interview with each departing borrower.

It is often the last opportunity to remind the borrowers of their loan obligations, to discuss the terms and conditions of their loans, and to obtain current information to enable the school to keep in contact with them.

At the 4-year public institution we visited, which had delinquency rates of 14 percent and 16 percent in fiscal years 1975 and 1976, respectively, there had been no regular procedure until about a year ago to see that exit interviews were conducted. At this institution, the business office used the record of the exit interview to transfer the student's account from in-school to out-of-school status. The failure to conduct exit interviews resulted in students having in-school status long after they had left school. In such cases, the students would not be promptly billed for repayment. We checked the first 94 students listed on the school's In-School Loan Journal and found that almost 20 percent of these individuals had been out of school for at least one semester, and that in most cases, exit interviews had not been conducted.

At the community college, we found that no systematic procedure existed for billing borrowers, as prescribed by OE. After the students were out of school for some time, they were each sent a copy of a repayment schedule. Such a schedule should normally be provided at the time of the exit interview. The institution did not require any acknowledgement of the schedule from the borrower.

When a scheduled payment was missed, a series of form letters were dispatched at 10 to 14 day intervals. These letters were not sent by certified or registered mail, and no attempt was made to verify borrowers' addresses. In some students' folders, we found letters returned as not deliverable. The form letter specified neither the amount nor the due date of the missed payment.

We do not believe that the billing operation provided maximum efficiency in servicing and collecting loans. This institution reported delinquency rates of 62 and 68 percent for fiscal years 1975 and 1976, respectively.

According to OE procedures, an account is to be considered delinquent 4 months after the due date, and if collection action has not already been initiated, then it should begin. It is generally agreed that the longer an account is delinquent, the smaller the chance is for ultimate collection.

Also, at this community college, we examined several accounts which were being turned over to a collection agency. These accounts averaged 13.9 months overdue, ranging from 8 to 32 months. We looked at 49 accounts which had, as of April 1976, been with a private collection agency an average of 17.9 months. On the average, these accounts were 11.5 months overdue when they were turned over for collection. Of the total $18,454.47 principal outstanding on these accounts, the collection agency had collected $854.53. The agency returned 14 accounts to the institution as uncollectible. In our opinion, the lack of systematic billing and collecting procedures was a contributing factor to this institution's high delinquency rate.

At the 4-year public institution which had a delinquency rate of 16 percent in fiscal year 1976, officials said that prior to 1974, they had done little to collect on delinquent accounts. In the spring of 1974 a State collection unit was established and the institution was required to turn all delinquent accounts over to this unit. At the time of our visit, the institution had transferred about 1,100 accounts; however, it still had over 1,300 delinquent accounts in its books. A 1975 study by the institution noted a large backlog of delinquent accounts and recommended that temporary staff be assigned to alleviate the problem. In our discussion with the business officer, he said that collection of delinquent NDSL accounts did not have a high priority in his overall operation. He did not consider the hiring of temporary staff to be a feasible solution.

OE officials said that all these examples of inadequate loan servicing were violations of the requirements now set forth in the interim regulations. They said that failure to comply with the requirements could be grounds for termination from the program, but that prior to the regulations, adoption of such procedures was suggested to participating institutions by OE, but these were merely suggestions which lacked the force of law.

Conclusions and recommendations

We recognize that the delinquency problem is a difficult one; however, improvements in the performance of OE and lending institutions can significantly reduce the delinquency rate. The number of institutions experiencing problems with NDSL borrowers becoming delinquent on their

accounts is increasing. It was apparent at the institutions we visited that collection procedures prescribed by OE were not being followed. For example, exit interviews were not held with borrowers leaving school; borrowers were not routinely billed for loan repayments; and prompt collection actions were not initiated on delinquent accounts.

We recommend that you direct the Commissioner of Education to instruct those institutions which have high or increasing delinquency rates to follow prescribed collection procedures, especially those noted above, and to assist those institutions needing help in complying with procedures. We further recommend that you direct the Commissioner of Education to conduct investigations at institutions which persistently show high delinquency rates to determine if they have been complying with OE procedures. Those institutions which refuse to cooperate should be suspended or terminated from the program.

NEED TO EFFECTIVELY MONITOR PARTICIPATING INSTITUTIONS

The methods used to monitor the performance of institutions participating in the NDSL program have been:

--Review of fiscal operations reports and evaluation of applications which institutions submit to OE.

--Institutional program reviews by the 10 OE regional offices.

--Audits of the institutions' NDSL funds.

OE has not checked on the accuracy of information submitted by institutions. We found several instances of inconsistent information being reported to OE by institutions. Also, we question whether OE regional office personnel responsible for onsite reviews of the three campus-based aid programs will be able to conduct program reviews as recommended in an OE report on reducing program abuse. In addition, there have not been adequate followups on audits of institutions participating in the NDSL program, and consequently backlogs have developed. OE officials consistently pointed to a lack of staff as the reason for these problems.

Need to improve fiscal operations reports

Each year institutions participating in the NDSL program must submit a fiscal operations report to OE. The report contains information on (1) the financial status of the NDSL funds, (2) the record of borrower repayments, cancellations, and delinquencies, and (3) collection activities. The application due date follows the deadline for submission of fiscal operations reports by about 2 months. Program officials told us that roughly 10 percent of the institutions do not submit the fiscal operations reports on time, but that only about 2 to 3 percent fail to submit them by the application due date.

OE's processing of fiscal operations reports is complicated and time consuming. After the data is keypunched, it is checked for internal consistency. Final editing and tabulation of fiscal operations data can take from 2 to 3 years. Data for fiscal years 1974 and 1975 was still being tabulated as of March 1977.

OE also does not check the accuracy of the information that is reported. For example, institutions are allowed to claim an allowance for administrative expenses not exceeding 3 percent of the total amount of funds advanced to students during the year. If they enter an amount in excess of 3 percent, the report is returned with the error message stating that the figure may not exceed 3 percent of the total funds advanced. The institution may then change the administrative expense claim to an acceptable figure. OE does not verify whether the revised figure is correct or merely one which satisfies the 3-percent criteria.

In our visits to institutions, we found several cases where the information reported on the fiscal operations report did not reflect the information in the NDSL accounts at the institution. Using the accounts and working with institution officials, we could not reconcile the information on the fiscal operations reports to the institutions' records. At one institution a newly appointed business officer could not tell us how a particular section of the report had been completed for the previous year. Since the institution's automated system did not furnish this data, he could not tell us how this section of the report would be prepared for the following year.

Because of the lengthy delays and the absence of verification, we question the effectiveness of these fiscal

operations reports as a source of information for use in monitoring and evaluating an institution's performance.

OE officials said that reconciliation of data reported on the fiscal operations report and an institution's records is an audit function to be performed when the institution's NDSL funds are audited. They cited the interim regulations which require all participating institutions to have their programs audited no less than every 2 years. However, we found that there has not been adequate followups on audit exceptions in the past, and this new requirement in the regulations can result in further backlogs in resolving such exceptions unless changes are made. (See p. 16.)

Need to conduct onsite program reviews

Another way to assist and monitor an institution's administration of the NDSL program is through onsite reviews. Program staff at the OE regional offices are responsible for such reviews for all three campus-based aid programs. In addition, the regions are responsible for processing the institution's annual application for funds and for providing day-to-day technical assistance. The regional staffs report to the regional directors of HEW; OE headquarters has little control over the activities of the regions and provides little guidance on procedures to be followed in monitoring institutions. For example, OE headquarters has not provided regions with a standard program review guide to be used during onsite visits, and, therefore, the regions operate autonomously when conducting program reviews.

During fiscal year 1976, more than 3,000 institutions participated in the NDSL program. Forty-five OE staff members were assigned to the 10 regions to monitor the three campus-based programs. In its February 1976 report on program integrity to the Senate and House Appropriations Committees, OE noted that due to the lack of regional staff for monitoring institutions, one region had experimented with contracting for onsite program reviews. At one of the regions we visited, we found the same practice occurring. At a third region, contract employees were used, although regional officials said that they were not for routine monitoring of institutions. We asked OE program officials and OE's regional liaison officer about the extent and cost of contracting for such services, but they were unable to provide us with such data.

According to OE's office of grant and procurement management, contract employees should not be used for technical monitoring since this is a function of the Federal Government, not to be delegated outside of OE.

An OE report on reducing program abuse recommended that institutions receive program reviews at least once every 3 years. The report noted that in order to accomplish this, additional staff would be required and each program officer would have to perform a minimum of 25 reviews each year. Based on our work at the three regions we visited, we question whether OE will be able to achieve this objective. The three regions were responsible for almost half of the institutions participating in the NDSL program for fiscal year 1976. On the average, there was one program officer for every 102 institutions, and program officers averaged 14 program reviews a year. At one of the regions, the program officers averaged nine reviews.

The OE report cited above contained a draft of a standard program review checklist to be used by all of the regions. It also included a proposed management agreement whereby the Regional Commissioner and Deputy Commissioner for Postsecondary Education would agree to performing an established number of program reviews each year to see that each institution received a review at least once every 3 years. This proposal and the standard checklist have not yet been adopted. Program officials said that these matters were still under consideration.

Need to resolve audit exceptions

Until the interim regulations were published in November 1976, there were no requirements for institutions to have their NDSL accounts audited. With the new regulations, an audit must be performed at least biennially. In the early days of the program, some audits were done by the HEW Audit Agency. In fiscal year 1967 the HEW Audit Agency began accepting audits by private accounting firms. Since then, most of the audits of NDSL funds have been done by private firms, and the HEW Audit Agency does fewer than 5 percent of the audits.

Audits by private accounting firms are reviewed by the HEW Audit Agency and then by the NDSL program staff. Before the audits are closed, program staff members work with institutions to resolve significant deficiencies. This may require

a considerable amount of time on the part of program officials and institutions.

In fiscal year 1976, 1,010 audits of the NDSL program were performed. Staffing limitations have curtailed adequate followups on the audits, and consequently backlogs have developed. Now that the program regulations require audits every other year, it can be expected that the backlogs in following up audit exceptions will increase, unless procedural changes are made or more staff is assigned to the resolution of audits.

Lack of program staff

There have been differences between the Administration and the Congress over continuing the NDSL program. OE program officials pointed to a lack of staff as the main reason that more attention had not been devoted to resolving problems in the administration of the NDSL program. OE has advised the Congress that from fiscal years 1970 to 1976, the combined OE headquarters and regional staff assigned to the campus-based programs increased by 6 percent. During the same period the number of participating institutions increased by 77 percent, and the amount of newly awarded Federal funds increased by 95 percent.

The fiscal year 1977 budget approved an additional 70 positions for the three campus-based programs, 24 of which were to be for the NDSL program. OE believes that if these positions are filled, it would significantly contribute to the detection, prevention, and control of the problems noted in our review.

Conclusions and recommendations

We recommend that you direct the Commissioner of Education to modify the processing of fiscal operations reports to allow for more timely tabulation of the data furnished by institutions. Also, OE should periodically test the accuracy of information on the fiscal operations reports to see whether it agrees with institutions' records. This could be done on a sample basis.

We also recommend that you direct the Commissioner to develop guidelines on conducting onsite reviews of the NDSL program for the use of regional staffs, and establish a system for periodic program reviews of all participating

institutions. The practice of contracting for program reviews in place of OE staff reviews should be stopped.

If the NDSL program is to continue, we believe that the shortcomings recognized by OE and the problems we have noted will not change unless necessary resources are applied to monitor the administration of the NDSL program and to provide technical assistance to participating institutions.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this letter to the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the Senate Committee on Human Resources; the House Committee on Education and Labor; the House Committee on Appropriations; and the Subcommittee on Labor and Health, Education and Welfare, Senate Committee on Appropriations. Copies are being sent to the Director, Office of Management and Budget; the Assistant Secretary for Education; the Assistant Secretary, Management and Budget; and the Commissioner of Education.

We appreciate the cooperation and assistance given our staff during the work.

Sincerely yours,

James L. Martin for
Gregory J. Ahart
Director